

A company, even though formed to provide employment to members of a certain labor union to which the company pays all of the profits from its business operation, is not exempt under section 501(c)(5) of the Code; O.D. 523 superseded.

The purpose of this Revenue Ruling is to update and restate under the current statute and regulations the position set forth in O.D. 523, C.B. 2, 211 (1920). The question is whether the organization described below qualifies for exemption under section 501(c)(5) of the Internal Revenue Code of 1954.

A company was organized to provide employment to members of a certain labor union exempt from Federal income tax under section 501(c)(5) of the Code. It operates a business as its only activity and is owned and controlled by the union to which it turns over all of its profits.

Section 501(c)(5) of the Code provides for exemption from Federal income tax of labor organizations.

Section 502 of the Code provides that an organization operated for the primary purpose of carrying on a trade or business for profit shall not be exempt under section 501 on the ground that all of its profits are payable to one or more organizations exempt from taxation under section 501.

The term 'labor organization' is used in section 501(c)(5) of the Code in its commonly accepted sense. It refers to organizations such as labor unions, labor councils, and committees. See *Portland Co-operative Labor Temple Association v. Commissioner*, 39 B.T.A. 450 (1939), acquiescence, C.B. 1939-1 (Part 1), 28.

A business formed to employ union members is not a labor organization in its commonly accepted sense and therefore is not exempt from Federal income tax under section 501(c)(5) of the Code. Furthermore, by reason of section 502 of the Code, the company is not exempt on the grounds that the profits from its business activities are paid over to the labor union, which is exempt under section 501.

O.D. 523 is superseded since the position set forth therein is restated under current law in this Revenue Ruling.

Prepared pursuant to Rev. Proc. 67-6, C.B. 1967-1, 576.